



Arizona Department of Education

The Audit Unit

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Average Daily Membership Audit Report Educational Options Foundation Fiscal Years 2015, 2016 and 2017

Report Number—19-25

February 8, 2019



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Department of Education

Kathy Hoffman
Superintendent of
Public Instruction

February 8, 2019

Steve Durand, CEO
Educational Options Foundation
2150 E. Southern Ave
Tempe, AZ 85282

Dear Mr. Durand:

The Arizona Department of Education Audit Unit has conducted an audit of the Educational Options Foundation (School) Average Daily Membership (ADM) for fiscal years 2015, 2016 and 2017. The purpose of the audit was to address whether the School properly reported student enrollment to determine if it received the correct amount of Basic State Aid.

Auditors determined that the School did not accurately report some student enrollment data for fiscal years 2015, 2016 and 2017, which resulted in an overstatement of 2.02 ADM of the 1,839.13 ADM funded for the three fiscal years. As a result, the School was overfunded by \$12,635.26, which must be repaid to ADE by the School pursuant to state law. In addition, auditors determined that the School failed to properly maintain some required documentation in student cumulative files.

We appreciate the cooperation and assistance provided by the School's administration during the audit.

Sincerely,

A handwritten signature in blue ink, appearing to read "Melissa Moreno".

Melissa Moreno,
Chief Auditor

Kathy Hoffman, Superintendent of Public Instruction

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Introduction and background

The Arizona Department of Education (ADE) Audit Unit has conducted an Average Daily Membership (ADM) audit of Educational Options Foundation (School) pursuant to Arizona Revised Statutes (A.R.S.) § 15-239. This audit focused on whether the School properly reported enrollment and attendance data to ADE and received the correct amount of Basic State Aid for fiscal years 2015, 2016 and 2017.

Average Daily Membership audits of district and charter holder funding—Pursuant to A.R.S. § 15-239, ADE may conduct ADM audits, which help ensure the appropriate distribution of Basic State Aid provided annually to school districts and charter schools. School districts and charter schools receive Basic State Aid based on several factors related to student enrollment and attendance. To receive funding, school districts and charter schools report enrollment and attendance data to ADE. ADE processes that data, determines payment amounts according to the relevant statutory funding formulas and distributes payments to schools up to twelve times each year.

The ADM audit process determines whether payments were correct or if an adjustment is needed. The audit process compares the school district's or charter school's information reported to ADE's Student Data System to information found on the original records kept at the school. If auditors find that the school district's or charter school's reported information does not match the original documentation, the audit will calculate and report the funding adjustment needed to the school district's or charter school's Basic State Aid. These funding adjustments can be positive or negative, depending upon the audit findings. The audit findings are written and compiled into a report that is then issued to the audited entity.

Superintendent's legal notice links the audit and appeals processes—In addition to the report, the audited entity receives The Notice of Audit Findings and Required Reimbursement (Notice) that details the audit findings and determination of the Superintendent of Public Instruction (Superintendent) regarding adjustments to be made to the school district or charter school pursuant to A.R.S. § 15-915. The audited entity may appeal the Superintendent's decision in the Notice.

Opportunity to appeal the audit—A.R.S. § 41-1092.03 provides the audited school district or charter school that disagrees with the Superintendent's decision in the Notice with the opportunity to file a formal appeal within thirty (30) days after the report was issued. If an appeal is filed, the school district or charter school and ADE may reach agreement in an informal settlement conference. If an agreement is not reached at the informal settlement conference, the appeal will be adjudicated by the Office of Administrative Hearings.

Funding adjustment process and timeframes—When the Notice is finally settled or adjudicated, if ADE has determined that a school district or charter school received an incorrect amount of Basic State Aid, A.R.S. § 15-915 directs that corrections to schools' funding be made in the current budget year. In case of hardship, schools may request that the Superintendent allow a correction to be made partly in the current budget year and partly in the following budget year.

School information—In fiscal years 2015, 2016 and 2017, the School had one high school located in Douglas, Arizona, and one Arizona Online Instruction (AOI) school. The School offered instruction in grades 7 through 12.

Table 1 presents the School’s unaudited financial information for fiscal years 2015, 2016 and 2017.

Table 1
Educational Options Foundation
Total students, revenues and expenditures
Fiscal years 2015, 2016 and 2017
(Unaudited)

	2015	2016	2017
Students Enrolled	522	673	689
Number of Teachers	24	15	18
Revenue			
Local	\$ 51,655	\$ 10,233	\$ 67,314
Intermediate	-	-	-
State	3,389,643	3,780,316	5,014,625
Federal	<u>163,126</u>	<u>204,062</u>	<u>363,721</u>
Total revenues	<u>3,604,424</u>	<u>3,994,611</u>	<u>5,445,660</u>
Total expenditures	<u>\$ 1,817,361</u>	<u>\$ 1,995,113</u>	<u>\$ 2,308,854</u>

Source: Annual Report of the Arizona Superintendent of Public Instruction for fiscal years 2015, 2016 and 2017

SCOPE AND METHODOLOGY

The audit focused on whether the School accurately reported its data to ADE and received the correct amount of Basic State Aid in accordance with statutes, the Uniform System of Financial Records (USFR) and its own policies and procedures for fiscal years 2015, 2016 and 2017.

To conduct this audit, auditors used a variety of methods, including examining School and ADE records. Adjustments to ADM are based solely on those identified students that the auditors evaluated further and are not extrapolated to create findings for the entire student population. Auditors also reviewed state statutes and School policies and procedures and interviewed School management and staff. Specifically:

- ***AOI data***—Auditors compared 100% of the Arizona Online Instruction data that was reported to ADE to the AOI data from the School. Auditors reviewed instructional time reported as well as the full or part time status that was reported for each student. When the data reported to ADE was incorrect, an adjustment was determined.
- ***Enrollment data***—Auditors compared the School’s student management system to ADE’s system and selected a sample of 150 of 506 students. Auditors reviewed the attendance and schedule reports to determine if the enrollment data reported to ADE was accurate. Auditors compared the student profiles to ADE’s information system to determine if the entry and exit date was correct. In addition, auditors reviewed class schedules to determine if the full-time equivalency (FTE) was correct. When the audited days were different from the reported dates auditors recalculated the ADM and made appropriate adjustments to the funded ADM.
- ***Instructional hours***—Auditors reviewed the School’s bell schedules and calendars for the fiscal years audited and determined that the School provided at least the minimum number of instructional hours as required by statute for each grade level.
- ***Student files***—Auditors reviewed student files to ensure that they maintained required documentation, including birth certificates, immunization, and residency documentation. Auditors identified files that did not contain reaffirmation of residency required by the ADE residency guideline.
- ***Special education (SPED) data***—Auditors reviewed the students to determine if any were also funded for one of the special education categories. No findings were identified for this area.
- ***Limiting***—Auditors reviewed the total ADM for each enrolled student to ensure that they were appropriately limited. No findings were identified for this area.

The Audit Unit expresses its appreciation to the Educational Options Foundation’s administration and staff members for their cooperation and assistance throughout the audit.

FINDING 1: THE SCHOOL DID NOT ACCURATELY REPORT SOME STUDENT DATA, RESULTING IN AN OVERPAYMENT OF \$12,635.26

Auditors determined that the School inaccurately reported the student data for four students of the 150 students reviewed at the brick and mortar school, and 45 students of the 4,876 students at the AOI for fiscal years 2015, 2016 and 2017. Specifically, auditors found that four students had an incorrectly reported exit date. In addition, at the AOI seven students should have been reported as full time, 35 students should have been reported as part time, and three students were not reported to ADE. As a result, of the 1,839.13 ADM the School was funded for during the three fiscal years, 2.02 ADM was overstated, and the School was overfunded by \$12,635.26 in Basic State Aid. According to A.R.S. § 15-915, ADE needs to recover these monies from the School.

The School inaccurately reported some student enrollment data

The School inaccurately reported 49 students' enrollment data to ADE, which resulted in the School's ADM being overstated by 2.02 for the three fiscal years audited. According to ADE External Guideline and Procedures GE-17, with the exception of pre-enrolled students, the enrollment dates for a student are the first day of actual attendance and the last day of actual attendance or excused absence. In addition, SF-0003 states that full time AOI students must enroll in and participate in four or more classes during the year. If a student is enrolled in fewer than four classes, they should be reported as part time.

However, the School did not always adhere to these requirements. Specifically, for the students that were sampled:

- 4 students in fiscal year 2017 had an incorrect exit date reported. As a result, the ADM for the School was overreported by 2.70.
- 7 students were incorrectly reported as part time and should have been reported as full time. As a result, the weighted AOI ADM for the School was underreported by 0.35.
- 35 students were incorrectly reported as full time and should have been reported as part time. As a result, the weighted AOI ADM for the School was overreported by 0.47.
- 3 students were not reported to the ADE system; however, schedules and attendance were provided to show the students attended. The School did try to correct 2 of the 3 students during a data correction for FY2017; however, the minutes for these students was not able to be corrected in the time permitted. As a result, the weighted AOI ADM for the School was underreported by 0.79.

As shown in Table 2, enrollment data errors resulted in an ADM overstatement of 2.02 for the three

fiscal years audited.

Table 2

**Educational Options Foundation
ADM adjustments
due to enrollment data errors
Fiscal years 2015, 2016 and 2017**

	Exit Dates	Should have been full time	Should have been part time	Not reported to ADE	Total
2015	0.00	(0.04)	0.00	0.00	(0.04)
2016	0.00	(0.09)	0.18	0.00	0.09
2017	2.70	(0.22)	0.29	(0.79)	1.98
Total	2.70	(0.35)	0.47	(0.79)	2.02

Source: Auditor analysis of School records and ADE data for fiscal years 2015, 2016 and 2017

The School must properly reconcile its enrollment data with ADE

The School can likely avoid errors in the future by ensuring it regularly and correctly reconciles its data to the data contained in ADE’s system. The School must ensure that a process is in place that captures the proper entry and exit dates and attendance of students to ensure proper funding and reporting of data. In addition, the School should review its AOI data to identify any discrepancies that would affect funding and correct any errors identified. The School must comply with the requirements of A.R.S. § 15-808 and SF-0003 when calculating and reporting AOI students.

The School was overfunded by \$12,635.26

Auditors determined that the School did not receive the correct amount of Basic State Aid due to the inaccurate student data reported to ADE for fiscal years 2015, 2016 and 2017. The student data incorrectly reported by the School resulted in its ADM being overstated by 2.02. As a result, the School was overfunded by \$12,635.26 in Basic State Aid, which ADE must recoup from the School. Table 3 shows the ADM and funding adjustments required for the School for FY2015, FY2016 and FY2017.

Table 3

**Educational Options Foundation
ADM and funding adjustments
Fiscal years 2015, 2016 and 2017**

	2015	2016	2017	Total
ADM	(0.04)	0.09	1.98	2.02
Total funding adjustments	\$ (207.03)	\$ 403.91	\$ 12,438.38	\$ 12,635.26

Source: Auditor analysis of School records and ADE data for fiscal years 2015, 2016 and 2017

Recommendations:

1. ADE must recoup from the School \$12,635.26 in Basic State Aid due to incorrectly reported student data.
2. The School must properly reconcile its data each year to ensure it complies with A.R.S. § 15-901.
3. The School needs to ensure that it properly calculates and reports student AOI data according to A.R.S. § 15-808 and SF-0003.

FINDING 2: THE SCHOOL DID NOT PROPERLY MAINTAIN SOME STUDENT RECORDS AS REQUIRED BY STATUTE AND GUIDELINE

Auditors determined that the School failed to properly reaffirm residency documentation for some students as required by ADE guidelines. The School did not properly maintain required documentation to show that residency was reaffirmed each year in some of its student cumulative files. In the future, the School should properly maintain these documents to ensure compliance with statute and ADE guidelines.

The School did not properly maintain residency documentation

Auditors determined that the School failed to maintain proper residency documentation for some students as required by statute and ADE guidelines. According to A.R.S. § 15-802 and the ADE Arizona Residency Guideline, school districts and charter schools are required to maintain verifiable documentation of Arizona residency in the student's cumulative file. This documentation must be provided each time a student enrolls in a school district or charter school and reaffirmed during the annual registration process.

The School did not reaffirm the residency of students annually as required by ADE's residency guideline. Of the 75 students sampled, 13 of the student files did not have the documentation showing residency was reaffirmed as the ADE Arizona Residency Guideline requires. Table 4 lists the Residency documentation maintained by the School for FY2015, FY2016 and FY2017.

Table 4

**Educational Options Foundation
Student cumulative file documentation
Fiscal years 2015, 2016 and 2017**

	Total Sampled	Residency not reaffirmed
2015	25	0
2016	25	6
2017	25	7
Total	75	13

Source: Auditor analysis of School records for fiscal years 2015, 2016 and 2017.

In the future, the School must ensure that it complies with statute by reaffirming residency each year and maintaining documentation in each student's cumulative file as required by the ADE Arizona Residency Guideline.

Recommendation:

1. The School must comply with statute and the ADE Arizona Residency Guideline by reaffirming residency each year.

ADM AND FUNDING ADJUSTMENTS

A.R.S. § 15-915 requires that ADE makes corrections for audit findings to state aid. ADE’s School Finance Unit’s Memo 13-011 informs LEAs of these statutory requirements:

A.R.S. §15-915, as amended by Laws 2012, Chapter 357, Section 3, requires the superintendent of public instruction, when it is determined that state aid or budget limits have been calculated in error, within the prior 3 years, to make corrections to budget limits and state aid in the current year. (Hardship application may be approved by the superintendent). Effective for audits initiated during FY2013 and continuing in subsequent years, corrections for audit findings to both budget capacity and state aid (when applicable) will be made.

Basic State Aid adjustment of \$12,635.26 required to be paid to ADE—Auditors identified an overall funding adjustment of \$12,635.26 for the three fiscal years audited due to inaccurate student enrollment data.

Table 5 lists the ADM adjustments and the associated Basic State Aid adjustments for the School for fiscal years 2015, 2016 and 2017.

Table 5

**Educational Options Foundation
ADM and funding adjustments
Fiscal years 2015, 2016 and 2017**

	2015	2016	2017	Total
Total ADM adjustment	(0.04)	0.09	1.98	2.02
Total funding adjustment	\$ (207.03)	\$ 403.91	\$ 12,438.38	\$ 12,635.26

Source: Auditor analysis of ADE and School student and financial data for fiscal years 2015, 2016 and 2017.